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C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000994

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ETRD, ECIN, KCOR, VE

SUBJECT: CHAVEZ FREEZES RELATIONS WITH COLOMBIA

REF: CARACAS 00983

Classified By: Economic Counselor Darnall Steuart for reasons 1.4 (b) and (d).

11. (C) SUMMARY: Following President Chavez's July 28 announcement to "freeze" relations with Colombia, an Embassy contact within the Agriculture and Lands Ministry reported that she had been tasked to identify Colombian imports suitable for substitution and to compile a list of Colombian businesses in Venezuela and their product lines. However, in public statements on July 29, Vice President Ramon Carrizales said that there are no instructions to shut down the Colombian border. The GBRV depends on its lopsided trade relationship with Colombia to meet 35 percent of its food imports, and a freeze in trade could result in the start of food shortages within two weeks. Trade experts remain optimistic that trade will continue despite this recent diplomatic spat. End summary.

CHAVEZ FROSTY ON COLOMBIA

12. (SBU) On the evening of July 28, President Chavez announced a "freeze" of relations with Colombia and recalled Venezuelan Ambassador Gustavo Marquez and other diplomatic personnel from Bogota. Chavez attacked the GOC's claim that the FARC had acquired Swedish rocket launchers from Venezuela and criticized ongoing negotiations between the GOC and the US over the use of military bases. Chavez denied GOC allegations that the GBRV had sold Swedish weapons to the FARC, blaming the US and Israel instead. "Enough is enough," Chavez said. "We will no longer tolerate this irresponsible act by the Colombian president."

13. (SBU) Chavez then told his Commerce Minister to freeze economic relations with Colombia. "We are going to substitute imports from Colombia," he said. "These are not essential imports for us because we can obtain them from many other countries such as Brazil, Ecuador, and Central America." Chavez told his Agricultural and Lands Minister Elias Jaua to prepare to expropriate Colombian companies in the event of future GOC aggression. Chavez asked Vice President Ramon Carrizalez to immediately review Colombian imports and investments in Venezuela and to submit a report the following day.

14. (C) According to published reports on July 29, Vice

President Carrizalez denied that the GBRV was considering closing the border with Colombia. But in a July 30 conversation with the Ministry of Agriculture and Lands Division of Agricultural Marketing, Analyst Lennys Rosales (strictly protect throughout) told AgOff that Minister Jaua asked her office to produce quickly a list of Colombian imports that could be procured elsewhere, despite her objection that it would be difficult to substitute for Colombian goods. Rosales was also told to develop a list of the Colombian companies in Venezuela and their product lines, although she pointed out that the Ministry of Commerce, which controls business licensing, would be a better source for this data. Late on July 30, Food Minister Felix Osorio announced that the GBRV would not issue additional import licenses. At the time of the announcement, the Minister said, "We cannot allow our food sovereignty to be controlled by a country like Colombia, which is not an ally of the Venezuelan government."

BILATERAL TRADE: FROZEN TOGETHER

15. (C) Venezuela's trade relationship with Colombia is both significant and unbalanced: significant because Colombia is Venezuela's second largest trading partner; unbalanced because Venezuela's imports from Colombia greatly exceed its exports. In a July 21 meeting with the Venezuelan Colombian Economic Integration Board (CAVECOL), board members told EconOff and visiting analysts that Colombia's exports to Venezuela totaled USD 6.091 billion in 2008. In contrast, Venezuela's exports to Colombia in 2008 totaled just USD 1.198 billion.

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16. (C) Published reports of a recent study by Colombia's National Administrative Department of Statistics (DANE) highlight the growing trade imbalance between the two countries. In the first five months of 2009, Venezuela bought 33 percent of Colombia's nontraditional exports at a value of USD 2.246 billion. Over the same period, Venezuelan exports accounted for just 1.8 percent of Colombia's imports, totaling USD 238 million. CAVECOL representatives said that the GBRV's fixed exchange rate and Venezuela's booming consumption were primarily responsible for the increase in imports.

17. (C) More recently, however, Colombian exports to Venezuela have fallen, although the overall volume remains substantial. CAVECOL representatives said that Colombia's exports to Venezuela have dropped 3 percent in the first half of 2009. Since Colombia's gas exports to western Venezuela have tripled during this period, nontraditional exports have probably declined even more rapidly. CAVECOL representatives expressed concern that Venezuelan--and possibly Colombian--preferences for choosing commercial partners based on political calculations had affected the trade relationship.

THAWING QUICKLY

18. (C) In spite of Chavez's recent threats, CAVECOL representatives were sanguine about the future of the trade relationship. On July 29, CAVECOL President Daniel Montealegre said, "Colombia has a series of advantages like knowledge of the Venezuelan market, the quality of its products, and delivery times," according to published reports. In a separate July 29 conversation with EconOff, CAVECOL Trade Coordinator Ivan Leal Burgos predicted that the latest freeze in bilateral relations would not impact trade. Burgos said that trade in food and pharmaceuticals continued even after the GBRV closed the Colombian border during last year's diplomatic spat. He also noted that overall trade

between the two countries increased in 2008, in spite of diplomatic tensions. Colombia has substantial direct investment in Venezuela and Burgos said that the 150 Colombian companies operating in the country want to keep a foothold in an important long-term market.

¶9. (C) Leading food processing and trade organizations seem to agree with CAVECOL's assessment. They argue that food product trade from Colombia will continue, despite the diplomatic dust up, because it is a necessity given Venezuela's significant dependence on imported goods. Colombia supplies about 35 percent of Venezuela's food import needs, including products like beef, milk, and dry beans, which can be quickly transported to Venezuelan supermarkets and processing facilities. Any complete trade stoppage would result in the start of basic food shortages within two weeks, according to these sources.

COMMENT

¶10. (C) Chavez was already unhappy at the prospect of US counternarcotics forces operating out of Colombian bases (reftel). GOC accusations that Venezuela had supplied the FARC with Swedish weapons took Chavez by surprise. He is clearly concerned by the possibility of additional revelations of his support for the FARC and is warning the GOC of the possible consequences. With strong evidence to support these allegations, and without proof to refute GOC claims, Chavez resorted to a familiar tactic: verbal attacks and threats. However, it is difficult to imagine Venezuela producing its way out of a food shortage given the current state of the agricultural sector, or rapidly finding substitutes for Colombian food imports. Carrizalez's comments on July 29 appear to acknowledge that reality.
CAULFIELD